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Abstract

In recent years, many countries have undertaken reforms of their governmental accounting and financial reporting systems, at central level as well as at local level, in order to meet transparency, accountability and comparison needs. Furthermore, the International Public Sector Accounting Standards Board issued the first set of accounting standards specifically dedicated to the public sector; but the adoption of these standards is not compulsory, so not all public sector reforms are based on them.
Given that a standardised governmental accounting and financial reporting model does not exist, the paper aims to focus the attention on the European continent: firstly, analyzing the central government accounting and financial reporting systems of two European countries (France and Italy), paying particular attention on the reforms recently carried out, in order to compare these two systems, emphasizing similarities and differences; secondly, assessing if French and Italian central accounting models are in line with the EU system, as they are both EU member states.

Keywords: public sector accounting, accrual accounting, central government financial reporting.

1 – Introduction

Last decades have been characterized by deep transformations that involved the public sector in a transversal way, determining relevant changes in its working models and in the role played within the society. It is a question of rationalization and modernization, still on going in many contexts, referred to many dimensions of the public sector, started and spread with different peculiarities and timing, in the developed world as well as in transition countries. Different kinds of public organizations have been involved (local, national, supranational and international), as well as various areas of public intervention and public services.

These processes have taken place from a condition of more or less deep crisis that involved the public sector. Generally, the qualitative and quantitative evolution of the public intervention in the society implied a substantial increase of public expenditures, without a corresponding and effective increase of benefits; this problem caused deeper and deeper imbalance situations between imposed sacrifices for taxpayers and delivered public services.

Such phenomenon, together with many specific causes inherent to single contexts, determined the urgent need of public entities' efficiency and effectiveness recovery, monitoring the ability to realize their institutional aims in sustainable financial and economic conditions. In the actual social and economic background, this element is an essential factor as for countries' international competitiveness, thanks to important functions carried out by the public sector in services' production and delivery, that influence and support enterprises' development and competitiveness.

A lot of reforms, differently developed in various public fields, have been worked out under the New Public Management (NPM) paradigm (Aucoin, 1990; Hood, 1991 and 1995; Barzelay, 2001; Gruening, 2001; Pollit and Bouckaert, 2004; Pollit et al., 2007). It takes into account different processes of rationalization and change in the working of public entities from an organizational, managerial and financial point of view, focusing on the best technical-productive solution's search through the use of practises like performance measurement, performance budgeting, management by objectives, that are typical business principles and instruments adapted to the public sector.

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Several theoretical and empirical studies show that different strategies are used to achieve public management reforms (Jones et al., 2004):

- decentralization and delegation of authority and responsibility for decision making and management;
- application of information technology to improve governments' management and responsiveness towards citizens;
- developing and improving management control systems;
- introduction of measures to reduce corruption in government, business and society;
- development and use of performance indicators;
- integration of performance measurement and management.

Within these processes, public sector accounting systems reforms also take place: it is the New Public Financial Management (NPFM) (Olson et al., 1998), which shows an increasing importance of financial and accounting dimension of public sector management reforms. All fields of public sector accounting have been involved: management accounting, financial accounting and auditing (Jones and Pendlebury, 2000). In this area, changes in financial reporting systems are considered one of the "key elements of financial reforms" (Olson et al., 1998). In fact, financial resources are an essential condition for public entities' working and survival, thus the control of the use-ways of these resources is an endless discussion topic for academics and professionals.

The aim of this study is firstly to analyze central government accounting and financial reporting systems of two countries, France and Italy, paying particular attention on the reforms recently carried out, in order to compare these two systems, emphasizing similarities and differences. Secondly, as these two countries are both EU member states, to assess if French and Italian central government accounting choices are in line with the recently renewed EU system.

The paper is structured as follows: next section sets a theoretical framework, providing an overview of literature and previous research referred to the research topic; the third section clarifies the research context; the forth section is dedicated to the research design and methodology; the fifth section sums up the analysis of the selected cases; finally, a discussion on findings and research results with concluding remarks is presented.

2 – Theoretical background

Within the huge NPFM literature and implemented reforms, financial reporting and accounting standards for the public sector are very important issues. In particular, the introduction of accrual-based accounting systems, moving from cash-based accounting, is one of the most significant lines of recent public sector accounting reforms.

However, this is not a new subject. Several attempts of commercial accounting introduction in the public sector have been made in the past: for instance, the ones carried out in Spain in the XVI century (Jurado-Sanchez, 2002), in the UK and Italy in the XIX century (Edwards et al., 2002; Anselmi, 2006), and in the USA in the first part of the XX century (Antony, 2000). The reasons for which these attempts did not succeed are different and they vary according to specific countries' context: the common element seems to concern their low compliance with public sector needs and features (Anessi Pessina, 2007: 26).

In the '90s of the last century, the adoption of accrual accounting in the public sector has been pushed forward and considered "self-evident" (Lapsley et al., 2009), seen as a good tool to realize NPM principles such as public sector efficiency, effectiveness, transparency and accountability.

As for advantages issuing from accrual accounting implementation in the public sector, many studies have been conducted (Parker and Guthrie, 1990; Pallot, 1994; Mellet, 1997; Brorström, 1998; Perrin, 1998; Chan, 2003; IFAC-PSC, 2003b; FEE, 2007). According to this wide literature, main positive aspects are:

- the link with management accounting;
- costs measurement of supplied services and political programmes, so as to maximize public entities' efficiency and productivity;
- monitoring of assets;
- more accurate measurement and communication of public sector entities' financial position and performance;
- long term assessment of public policies financial sustainability;
- the possibility to draw up consolidated financial statement.

In sum, accrual accounting is expected to provide better information for internal use (for cost and price calculation, make-or-buy choices, outsourcing, etc.) and external use, improving thus public entities' transparency, accountability and performances evaluation. These advantages correspond to the critique of cash accounting that is accused of preventing the carrying out of the above mentioned measures and assessments. Consequently, cash accounting could not fit with public resources management control, being not able to highlight the connection between resources consumption and achieved results.

After an enthusiastic period of adoption of new accounting tools and techniques, an increasing body of literature has highlighted that reforms do not always lead to expected results (Olson et al., 1998; Lapsley, 1999; Ter Bogt and Van Helden, 2000) and that private sector practices are not necessarily well-suited to be applied acritically in the public sector (Guthrie, 1998), questioning if there is a real need of accrual accounting in the public sector and if this is the case for all kinds of public entities.

Theoretical and empirical studies point out more than one problem arising from accrual accounting implementation in the public sector, which realizes extremely heterogeneous activities and produces many outputs that cannot always be measured and represented by a financial point of view (Stewart and Walsh, 1994).

From a theoretical perspective, some authors argue that cash accounting is more suitable for government's kind of activities, in particular for central government, significantly concerned with fund transfers. Other authors underline that accrual accounting reforms have not identified and followed a conceptual pattern, resulting into an uncritical and misleading transferring of business practices in the public sector (Mautz, 1981; Guthrie, 1998; Ellwood, 2003; Hodges and Mellet, 2003; Christiaens and Rommel, 2008).

Moreover, some operational difficulties have come out in implementing accrual accounting, depending on the public sector's peculiar nature and kind of activities (Guthrie, 1998; Antony, 2000; Blöndal, 2002; Christiaens, 2004; Newberry and Pallot, 2005). In particular:

- the market absence, which causes some relevant consequences concerning definition, valuation, classification, depreciation and presentation of assets;
- the drawing up of the opening balance sheet, that requires identifying and evaluating assets and liabilities at the starting point of the accounting reform;
- operational difficulties of accounting office staff in recording transactions under a double-entry bookkeeping system, as well as public managers' troubles in understanding accrual based financial reporting;
- problems with information systems, especially concerning the moving to the new accounting system, as well as its transition costs in relation to time, financial and human resources.

In brief, the non-business features of the public sector economy leads to the existence of specific types of assets and liabilities, expenses and revenues that do not exist in business, and raises then a need for a special conceptual framework for public entities (Guthrie, 1998; Chan, 2003; Ellwood, 2003). On the contrary, the development of accounting and performance measurement models more and more advanced, elaborated and expensive undervalues the difficulties to measure government performance, eventually considering the measure of the activity as an aim and not as a mean (Jones et al., 2001; Olson et al., 2001).

Finally, from a management perspective, usefulness of accrual accounting reports – especially their ability to improve politicians and other stakeholders' decision-making – seems not to be proved, since public sector decision makers do not find such information so useful, relevant, and understandable (Jones and Pendlebury, 2004; Steccolini, 2004; Brusca and Montesinos, 2006; Wynne, 2008).

3 – Research context: financial management reforms in France, Italy and the European Union

The focus on the accounting choices made by central governments is an important research topic, because these public entities raise and spend huge amount of financial resources, so the analysis of their accounting system and the connected financial reporting is important to asses their ability to satisfy financial accountability through their stakeholders (Mack and Ryan, 2006).

Some studies underline the prevalence, within central governments, of those features and activities for which accruals accounting is often deemed inappropriate. Christiaens and Rommel, for example, suggest accrual accounting use when government engages in businesslike activities, while cash accounting should be applied when government provide public services without business like or profit objectives, hoping a combination of the two systems when different kinds of activities coexist (Christiaens and Rommel, 2008: 59-75).

Another critical point is that a single kind of accrual accounting does not exist: full cash accounting and full accrual accounting may be considered as two limit points of a wide range of different alternatives, being hybrid solutions (IFAC-PSC, 2000: 15; Blöndal, 2002: 44).

In the European continent, governmental accounting diverges between countries and within countries, both for differences in recording systems, and for different measurement rules and disclosure requirements (Lüder and Jones, 2003; Jones, 2007). Both the continental and the anglo-saxon accounting systems are represented: the continental tradition can be associated with the civil law countries with a roman legal system (such as France, Germany, Italy, Spain), while the Anglo-Saxon accounting tradition is usually associated to the common law legal system, as the UK one (Torres, 2004). While the anglo-saxon approach is influenced by the business model, continental accounting system is connected with a bureaucratic meaning of accounting principles and standards, which public bodies set up as laws or administrative rules. As well known, in continental countries the budget has been traditionally almost the only one element in governmental accounting and the influence of private sector accounting has been absent until recent years (Montesinos and Vela, 2000).

An encouragement to governmental accounting systems and financial reporting harmonization seems to acquire more and more importance, also with particular reference to the European continent, for different reasons. Firstly, to realize the consolidation of the European public sector expenditures and results. Furthermore, the need of promoting a convergence between national accounting (ESA 95 system) and government accounting has been pointed out in many circumstances (Jones, 2003; IFAC-IPSASB, 2005). Lüder (2000: 127) argues "a shift of governmental accounting bases towards accrual as well as a transnational standardisation of procedures and practices" in order to carry out this progressive convergence – considering the ESA 95 features – also with the aim of an improvement of cross-country comparisons. Then, accounting harmonization searching is important for performance comparison among different European public organizations, operating in various countries, in order to increase transparency and improve accountability.

In this context, the analysis of the French and the Italian cases is interesting because they are very similar countries as for institutional and administrative systems' features.

France is a semi-presidential republic with legalistic state traditions (Pollit and Bouckaert, 2004: 247-255). It is a country characterized by historical tradition of strong centralization of decision-making and administrative management (*Rechtsstaat* administrative culture), that have been particularly strengthened during the Napoleonic period. Since the early '80s of the previous century, however, a process introducing elements of administrative decentralization through powers and functions division between central and local governments has begun (Cole and Jones, 2005; Kickert, 2005). This process, which continues in the '90s, reaches its peak with the approval of the Constitutional Law of 28th March 2003, defining France a decentralized republic and introducing the principles of subsidiarity and financial autonomy. Within these modernization efforts, also the central government budget and financial reporting reforms find their place.

Italy is a parliamentary republic with a civil law legal system (Pollit and Bouckaert, 2004: 264-269). In recent years some legislative reforms have been realized – inspired by the subsidiarity principle – in order to obtain a relevant administrative decentralization, carried out with functions and powers' transfer from central government to regions and local authorities (Longo, 2001; Mussari, 2005a). This process had its peak with the approval of the Constitutional Law n. 3/2001 – that has to be fully implemented yet – with which the State recognized to local governments a high degree of institutional, organizational, managerial and financial autonomy. The accounting reform process recently undertaken by the Italian central government has predominantly focused on budget, and – as a civil law country – it has taken place by law.

Taking into account that these two countries are EU member states, both founding members, it is interesting to compare their central government accounting and financial reporting systems with the EU ones, as they are supposed to respect EU economic and financial standards, reporting financial data to the supranational organization to which they belong.

The EU is a supranational public administration, result of a complex and long cooperation process and voluntary peaceful integration, unique and still going on, which some European countries have started from the '50s of the last century: it is a public organization much younger than national States. The EU's supranational nature influences its institutional, organizational and working mechanisms, characterized by a relevant degree of complexity and heterogeneity.

During the last decade many reform processes have begun, involving several EU dimensions (organization, management and control), because of both the institutional crisis occurred at the end of the '90s (Judge and Earnshaw, 2002) and the enlargement process: EU members increased from six to twenty-seven and this fact made inappropriate the original model shaped by the European Communities' founding fathers.

Within the EU complex framework, in this paper the attention is focused on the European Commission (EC), a European institution[1] with executive powers to ensure the proper implementation of European legislation, budget and communitarian programs. Then, in relation to the EU accounting model, it plays a role of utmost importance, defining accounting principles and rules to be applied by the other EU institutions and having the task of consolidating the various EU bodies' accounts.

The EC reform process started in 2000 with the white book publication (European Commission, 2000): the reform program is based on the principles of accountability, efficiency and effectiveness of actions put in place and transparency within the Commission, as well as towards external actors (Levy, 2004). Intervention areas envisaged by the reform are essentially three: the implementation of an activity-

[1] EU institutional framework is very complex: in addition to institutions (the most important are the European Parliament, the European Commission, the Council of the EU and the European Court of Auditors), there are financial bodies, advisory bodies, inter-institutional bodies and decentralized bodies (agencies).

based management system (also for the budgeting process); the reassessment of human resources policies and management; the reform of financial management, control and audit systems (European Commission, 2000).

Furthermore, the EC has recently imposed IAS/IFRS compulsory adoption to all EU member states' listed companies. But what is going on within the public sector? In this regard, the EC could play a leading role in the future, taking decisions similar to those ones assumed for business, even if a communitarian intervention could clash with the EU member States' national autonomy with reference to their budgets and accounting models (Jones, 2007: 103). Nevertheless, the comparison of national cases with the EC case is interesting because the EU powers and functions are still evolving, so monitoring what is going on with the EU accounting reform is important, because in the future some European choices could influence – in a more or less compulsory way – the EU member states[2].

4 – Research design: goals, questions and methodology

In this paper the attention is focused on the European continent: as explained in the introduction, the aims of this study are:

1) to analyze central government accounting and financial reporting systems of France and Italy, paying particular attention on the reforms recently carried out, in order to compare these two systems, emphasizing similarities and differences, to understand if some common elements exist;
2) to assess if French and Italian central government accounting and financial reporting systems are in line with the EU system, as they are both EU member states, and this is assumed to be an important stimulus for government financial management reforms.

The selected cases have been chosen for the reasons explained in the previous section. In brief:

- France and Italy are similar countries with reference to administrative culture, political and institutional system, as well as for accounting culture; one of the criteria for selecting and screening cases, in fact, is their homogeneity (Patton, 2002).
- The attention is also focused on the EU case: in fact, even if France and Italy are currently autonomous in shaping their own government accounting model, they are both EU members states and they have to report financial data to this supranational organization.

While for France and Italy the analysis concerns central government, for the EU the focus is on the European Commission (EC), for its important role played in defining the EU accounting model.

From the above mentioned research goals, the following set of research questions has been derived:

- Is the administrative similarity between France and Italy reflected on the performed accounting reform processes and, generally speaking, on their central government accounting system and financial reporting?
- Is it possible to point out an influence of the EU on the accounting reforms carried out by the analyzed EU member States?
- What is the role played by the International Public Sector Accounting Standards (IPSAS), the only set of accounting standards for public sector issued by an international body?

The paper is focused on the accounting system and financial reporting, whereas other aspects of the central government accounting model (such as budgeting and its reporting, auditing, management control) have not been considered, although some of them have been recently reformed in the selected countries[3]. In order to compare the cases, their analysis has been carried out in a homogeneous way, taking into consideration the following elements, strictly related with the paper's research topic:

- the accounting reform processes: timing, used tools, involved actors, main goals and contents;
- the choices regarding the accounting systems basis;
- the accounting principles and standards;
- the financial reporting, with particular focus on financial statements.

The employed method, coherently with the descriptive and explorative research aims, is the multiple case study (Eisanhardt, 1989; Yin, 2003; Fattore, 2005). In fact, as Berry and Otley (2004: 231) argue, case based research can provide a rich understanding in the content, process and context of an empirical phenomenon.

This analysis is based both on documents, than on interviews with key-officials[4]. In addition to litera-

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[2] Is interesting to note that, following the Council Directive 85/2011, at the beginning of 2012 Eurostat launched – on behalf of the EC – a public consultation to assess the suitability of IPSASs for EU member states government accounting.

[3] In Italy, for example, the D. Lgs. 150/2009 (known as "Brunetta reform") introduced a performance control system to monitor individual and organizations performances.

[4] For the French case, the interviews have been conducted with officials working within the Minister of Budget, Public Accounts and State Reform; for Italy, with officials working within the State General Ac-

ture review, the documental analysis – mainly devoted to understand the formal structures and the accounting processes – is based on official documents such as financial statements, accounting rules and regulation, accounting standards, accounting manuals and other working documents produced by government offices. The semi-structured interviews have been used to capture informal elements and expand information collected and provided by the documents.

5 – Cases-study analysis

5.1 – *France*

French central government accounting system modernization was made official with the constitutional bylaw on budget acts of 1st August 2001 (*loi organique relative aux loi de finances* – LOLF), that replaced the previous accounting rules, the *ordonnance organique* n. 2/1959. LOLF introduced some important and relevant changes, predicting a progressive application fully implemented in 2006, regarding both budget and financial reporting. The reform movement, however, has earlier roots: a crucial step was the accrual accounting taskforce report submitted in 1999 to the Ministry of Finance (IFAC-PSC, 2003a).

The accounting reform is a part of the overall State modernization effort started in the early 2000s, which concerns also a budgetary reform and a public management reform, based on the introduction of performance measurements. As some official speeches state and the interviews confirm, the French accounting reform wants to contribute to the improvement of the state's efficiency and transparency, making accounting a vector of information, thus a decision and a monitor tool. This is why this reform seems supported by politicians – it's a political reform with parliamentary initiative and a careful monitoring of its implementation – seen as an essential tool for the State modernization: this comes out also from the constitution of a specific Minister, the Minister of Budget, Public Accounts and State Reform, in 2009.

The accounting reform process is based on the introduction of an accrual based financial reporting, with the objective to make financial information more reliable and transparent, to provide Parliament and all central government's stakeholders better information about public resources consumption (Chevauchez, 2002: 285-304). Interviews clarified as important stimulus have also been the search for a better knowledge of assets and stocks, to support a better management, and for a more accurate knowledge of the accrued liabilities and potential charges, enabling to assess the sustainability of public finances.

In 2006, after building the opening balance sheet, financial statements were prepared for the first time according to current rules.

One of the French reform's distinctive feature is the so-called dual system: while the cash basis accounting system realized with single-entry bookkeeping has been kept for budget appropriations management (the budget has legal authorization value), an accrual accounting system has been introduced, in order to provide information about the State financial position and performance[5].

Facts and transactions are recorded only once in the budgetary accounting system, but thanks to the existence of a correspondence between the two charts of accounts – the budgetary one and the financial reporting one – these entries also feed the accrual based accounting system. Thus, financial accounting information availability is due to data-processing carried out at central level at the end of the financial year, based on peripheral budgetary bookkeeping (Mussari, 2005b: 31): for this reason, accruals figures are not always reliable and sometimes they need to be adjusted. As the interviews revealed, this aspect – operational but crucial for the accounts reliability – is to improve: each year, on the base of the previous implementation experience, the financial information system continues to be updated and developed. This process is not easy and short for its inter-ministerial dimension and its effects will be clear in next years, when it will able to replace other information systems currently in use yet.

French accounting culture is greatly influenced by the standardization experience begun in the '40s of the last century (Standish, 1990). Until now, rules set that all companies and public entities arrange their accounting system based on the French Chart of Accounts (*Plan Comptable Général*) that is adapted to specific features and information needs of different kind of organizations to which it refers from time to time. For public organizations, these adjustments take place with government regulations: for example M21 for hospitals and other health public bodies and M14 for Municipalities (IFAC-PSC, 2003a).

Accounting principles and standards are set by the State: the article 30 of the LOLF provides the establishment of a *Committee for Public Accounting Standards*, appointed in 2002 and located nearby the Minister of Budget, Public Accounts and Central Governments Reform. The committee's composition is regulated by law: eight members are appointed for three years by the Ministry of Budget and the other thirteen are law members (such as the director of

counting Department; for the EU case, with officials working within the DG Budget of the EC.

[5] "The general public accounting system is based on the accrual basis principle […]. The rules applicable to government accounting only differ from those applicable to companies in terms of the specific nature of government action" (LOLF, art. 30).

Budget, the director of Treasury, a member of the Court of Auditors, etc.). The standards committee has the mission to formulate advice on exposure drafts submitted by the Minister of Budget offices[6].

This committee approved sixteen *Central Government Accounting Standards* up to now, issued by the French Ministry of Economy (Biondi, 2012; Ministère du Budget, des Comptes Publics et de la Réforme de l'État, 2012). In addition, also a *Conceptual Framework for Central Government Accounting* was issued, designed with special reference to the French Chart of Accounts, IPSAS and IASB's standards, even if some original solutions may be required to better measure and represent some central government specific features, as happened, for example, for the Surplus/Deficit Statement (see below).

The sixteen central government accounting standards have a homogeneous structure that includes:

- an introduction, that explains the standard, any specific features of the central government in the area under consideration, the accounting choices and how the standard compares to other standard benchmarks (IPSAS, IAS/IFRS);
- the standard body with a four-parts structure: scope, accounting treatment, valuation and disclosure requirements to show in the notes;
- some examples illustrating how the standard fits into the legal and financial context.

As stated from the accounting standard 1, the French central government general accounts are composed of several documents, according to the international business practice.

First of all the c*entral government balance sheet: the statement of net assets/equity*. Presented as a list, it shows all assets, which are a list of balance sheet items with a positive economic value for the central government (fixed assets, current assets, accruals and deferred revenues for the financial year), and liabilities, which are obligations towards other entities recognised on the reporting date (they include provisions for risks and liabilities, financial debts, non-financial debts, other liabilities, accruals and deferred expenses for the financial year). In addition, the statement of net assets/equity shows separate cash items on both the assets and liabilities sides and a "net assets/equity" as a line item[7].

Then, the *central government surplus/deficit statement*, including all expenses and revenues of the year, is broken up into three parts:

- the n*et expenses etatement*, which shows the total amount of net expenses not covered by revenues from corresponding activities; in this statement figures are divided into three main groups:
  a) net operating expenses (shown on the basis of their nature, such as staff costs, purchases, depreciations) and coming from the difference with operating revenues (such as sales of goods and services);
  b) net intervention expenses (shown on the basis of the beneficiary, such as transfers to businesses, to local authorities, etc.);
  c) net financial expenses (such as interests and exchange rate losses and gains on financial transactions);
- the *net sovereign revenues statement*, structured in categories (taxes and other sovereign revenues), showing the revenues arising from the exercise of central government's powers, with no direct equivalent exchange for other parties;
- the *net operating surplus/deficit statement for the period*, which shows the difference between net expenses and net sovereign revenues arising from the two above mentioned parts of the document.

In this case, standard 1 does not follow neither the French Chart of Accounts, nor IAS 1 and 7, IPSAS 1 and 2, suggesting an original solution. This detailed statement's structure really points out one of the most important managerial peculiarities of central government. Expenses and revenues are not connected, unlike what happens in profit-oriented companies: resources consumption related to delivered services has not a corresponding amount due, since public revenues have mostly a tax nature, especially in central governments.

The *cash flow statement* presents inflows and outflows relating to assets and liabilities of the year and classifies them by categories:

- cash flows from operating activities, which correspond to receipts and payments linked to transactions and interventions (except for investments) and other receipts and payments that can be linked to operating activity, such as cash flows corresponding to financial expenses and revenues;
- cash flows from investment transactions, which correspond to receipts and payments stemming from fixed assets acquisition and disposal;
- cash flows from financing transactions, which correspond to receipts and payments regarding

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[6] A *Public Accounting Standards Interpretation Committee* was also created in 2004: in fact, sometimes accounting standards implementation needs an interpretation process, because new items, unknown when the standard is adopted, can generate questions and implementation doubts.

[7] Accounting standard I.1 points out that it cannot be compared to the shareholders' equity in a business, since there is no initial capital amount or anything equivalent to it.

central government's external financing transactions.

As usual, the *notes to the financial statements* provide information useful to read and understand main items, such as data on expenses reported by function and Ministers. Furthermore, because of the dual system, notes include transition tables to identify differences between cash-based budget accounts and accrual-based financial statements.

5.2 – *Italy*

The financial management reform process undertaken by the Italian central government has predominantly focused on budget, and – as a civil law country – it has taken place by law. The accounting reform started in 1997 maintained the traditional cash accounting system, using the cash basis in conjunction with the commitment basis (as confirmed by the Law 196/2009, concerning public accounting and finances). Without introducing a compulsory accrual accounting system[8], a cost accounting system has been implemented, based on cost measurements to be referred to cost centres, in order to obtain information about public resources employ by different departments and units and, furthermore, to use this information to support the budgeting process (Pavan and Reginato, 2005).

This accounting system, which became operative in 2000, is based on:

- a chart of accounts;
- a chart of cost centres, arising from responsibility centres in which each organizational unit is divided, coherently with the budget structure;
- a chart of delivered services;
- a manual of accounting principles and rules, providing operational instructions (State General Accounting Department, 2008).

This cost accounting system (revenues are not considered) is designed to support the drafting of an accrual budget structured in cost centres, derived from the legal cash-based budget. It contains the objectives to be achieved in terms of functions to be performed and services and activities to be carried out, by allocating human, financial and instrumental resources and targets to managers that are responsible for the various organizational units. But resources allocation is realized with the traditional cash-based budget, the only one having legal worth[9]: the accrual budget is a "knowledge tool", derived from the legal cash-based budget, and from the interviews is understandable that in some Departments it is seen more as a burocratic burden than a useful management tool.

Cost accounting recording is made on a six-monthly base, according to the accrual accounting principle "that takes as reference the cost, that is actual consumption of resources – goods and services – rather than charges, which represent cash disbursement related to their acquisition" (State General Accounting Department, 2008: 7). These costs do not arise from financial accounting system based on double-entry bookkeeping, but are derived from cash-based single-entry bookkeeping, with extra-accounting system adjustments, and they are not used to draw up financial statements.

Given that Italian government does not have an accrual based financial accounting system, it did not issue accounting standards related to financial reporting. The general accounting principles are stated by the Constitution and others laws, but they concern substantially only the budget.

The Italian annual report is made up of two main statements: in addition to the budget account, based on cash and modified cash accounting (mirror image of the budget), the balance sheet is also drawn up. It gives information about the State financial position resulting at the end of the year, highlighting changes in capital assets and equity. This statement shows government assets and liabilities: the structure, provided by law (D. Lgs. 279/1997 and Decreto Interministeriale 18th April 2002) and divided into classes, is coherent with the SEC 95 system. Assets classification is more detailed that liabilities one (only financial liabilities): it provides financial assets (cash, credits), "non-financial produced assets" (such as buildings, stocks, historical and artistic heritage, libraries) and "non-financial not produced assets" (that are natural assets such as lands and mineral resources).

Then, annual report includes transition tables to clarify the link between cash accounting results and the final balance sheet and, since 2007, the correspondence between cash accounting and cost accounting, showing integrative and rectification items, as stated by D. Lgs. 279/1997, art. 11.

No document is provided to show the financial performance and results of the period.

In spite of made efforts, Italian assets and liabilities measurement and disclosure seem to be not sufficient yet: beyond problems regarding valuation rules and financial representation requirements for all public sector entities (for instance about capital assets), the main negative element is that figures shown in the balance sheet do not derive from a systematic bookkeeping, but from inventory recording[10]. This

[8] Law 196/2009 provides the possibility to implement an accrual accounting system only for "knowledge goals" (art. 2).

[9] Law 196/2009 defines a new spending classification, based on missions and programs, the items upon which Parliament is called on to vote.

[10] Furthermore, some important items missing, such as accruals and deferred revenues and expenses for the financial year, risks and expenses provisions.

fact causes doubts about the figures' reliability, as the Court of Auditor states (Court of Auditors, 2009), and it forces sometimes to extreme simplification: think about depreciations, introduced only from 2000 onwards. At the moment, the balance sheet is drawn up with statistical data and it is intended mainly as a tool to monitor individuals' responsibilities for the different assets and liabilities, than a tool to measure, represent and enhance the state's heritage.

In brief, the traditional cash-based budget seems to be the most important document yet, first for the politicians, as for its resources' allocation function. The interviews confirm what several Italian scholars state, that there is a very little interest for the annual report – both the budget account than the balance sheet – and for the accounting reform in general by the parliament.

5.3 – *European Commission*

Within the EC financial management reform process started in 2000 (European Commission, 2000), the accounting modernization project – called ABAC, accrual based accounting – finds its place: it concerns the accounting system and the financial reporting, as well as EU the consolidated financial statements. Initiated in 2002 (European Commission, 2002)[11], the ABAC program is completed, even if the EC is permanently working on improvements, especially regarding IT infrastructure and accounting rules. The accounting reform achieved one of its most important steps in the preparation of the 2005 annual accounts, totally based on the new accrual accounting system.

As the interviews revealed, there was an important stimulus from the European Court of Auditors and from the European Parliament: this pressure relates to a wide extent to undertake a change to the Commissions information system so as to provide additional information. Consequently, the Commission has committed itself to improve and modernize its accounting system. On the other hand, there also was an indirect pressure from the recent developments in the public sector accounting, as a lot of national governments (also EU member states) and other international organizations went towards accrual accounting and overall financial management reforms.

Among the main tools used to realize the ABAC program were the Financial Regulation and Implementing Rules, approved in their "new" version by the Parliament and the Commission, in which the choice to introduce accrual accounting based on IPSAS is clear (Gray, 2006): "adopting accounting rules and methods, the Commission's accounting officer shall be guided by the internationally accepted accounting standards for the public sector, but may depart from them where justified by the specific nature of the Communities" (art. 133, par. 2, Financial Regulation).

Current accounting system is a dual system: accrual accounting has been implemented without leaving from cash accounting, used to manage budget appropriations. In particular, as far as the budgetary accounting is concerned, expenses are recorded under a modified cash basis, revenues under a cash basis; with regard to financial accounting, it is accrual based and realized with double-entry bookkeeping. The coexistence of the two accounting systems is possible thanks to concerning software's integration (European Commission, 2007 and 2008).

On the basis of what the Financial Regulation states (art. 124), financial statements are drawn up in accordance with generally accepted accounting principles, that are going-concern basis, prudence, consistent accounting methods, comparability of information, materiality, no netting, reality over appearance, accrual-based accounting. Implementing Rules provide an interpretation of these principles with reference to EU's peculiar features and activities (art. 186-192).

Then, the EC Accounting Officer, helped by an *Advisory Committee for Accounting Standards*, has issued seventeen accounting rules. The Committee is composed both of internal members (such as the EC Accounting Office, an accounting officer of a EU agency for issues concerning consolidation, etc.) than of external ones (such as a representative of IFAC/IPSASB, a professor of public sector accounting, etc.); its role is to deliver an independent professional judgement on the accounting standards and rules proposed by the Commission's Accounting Officer and to advice him on financial reporting principles and standards' application (Introduction of Accounting Rules, par. II.5).

Through these accounting rules – regarding main financial statements' items, their measurement rules and disclosure requirements – the EC has taken into account communitarian activities and peculiarities and:

- has identified which IPSAS can be directly applied, without integration need;
- has detailed and adapted some IPSAS;
- has created some new standards regarding areas left uncovered by IPSAS[12].

Every standard is divided into paragraphs: in addition to an introductory section regarding general purposes of the accounting rule, key-words, meas-

[11] EU accounting model's rethinking path opened since 2000, with a study carried out by a group of scholars, who provided suggestions and ideas about redefining EU financial reporting (Montesinos, 2000).

[12] For instance, accounting rule 5 is dedicated to pre-financing, one of the EC activity's peculiarities.

urement rules and disclosure requirements are listed; last part is the reference rules section, in which IPSAS (also the ones that cannot be applied, with specific motivations), IAS/IFRS (completing or substituting IPSAS, if they lack) and financial regulation articles to which the document refers are listed.

EU financial reporting includes several documents and annexes. All European institutions and bodies have to draw up financial statements based on the above mentioned accounting rules, in addition to budget accounts.

In the *balance sheet*, drawn up as a list, both assets and liabilities are divided between current and not current: their algebraic sum allows to determine net assets. This item includes, in addition to the economic outturn of the year (surplus or deficit), some reserves – also the fair value application one – and the amounts to be called from member States[13].

The *economic outturn account*, also drawn up as a list, contains operating revenues and expenses: the first ones are divided into own resources and contribution revenues and other operating revenues, the second ones into administrative expenses and operating expenses. Then, the economic outturn of the year is calculated adding up the surplus from operative activities, financial revenues and expenses, movements in employee benefits liability and share of net surplus (deficit) of associates and joint ventures.

While there are not peculiarities concerning the *statement of changes in net assets* – in line with IPSAS' requirements – with reference to *cashflow table* EC employs the indirect method, despite IPSASB recommends the direct method application. Operations are grouped into three areas: operating activities, increases/decreases in employee benefits liabilities and investing activities.

Then, *the notes to the financial statements* provide analytical and integrative information about accounting items content in the above mentioned statements, included additional information prescribed by internationally accepted accounting practice, where such information is relevant to the EC activities (Financial Regulation, par. 126.2). While each EU institution and body has to draw up financial statements, the EC has to arrange also EU consolidated financial statements that are composed of the same statements above mentioned. The EC is continuing to widen the number of EU entities included in consolidation process and to improve accounting data homogeneity, thanks to the progressive introduction of the ABAC system in more and more decentralized bodies (European Commission, 2007; Grossi and Soverchia, 2011). From official speeches and interviews is understandable that the EU accounting reform process, mainly carried out by the EC and in particular by the DG Budget, got the politicians support. Even if in the first years it was important DG Budget's support work in order to explain (especially to parliament members) some technical aspect, such as why there is a difference between the budget account result (cash and modified cash result) and the financial performance shown in the economic outturn of the year.

6 – Discussion on findings: comparative analysis

Referring to the financial management reform processes, this paper pays particular attention to accounting system and financial reporting reforms recently realized in France, Italy and the EC. They are more or less contemporaries: table 1 shows the formal beginning year, even if changing processes often had more far origins.

Compared to their objectives, in terms of «minimum results» they can be considered achieved, even if in some cases few aspects have to be improved: for instance, as for the EC, not all decentralized agencies have migrated to ABAC system, as well as European Developed Fund accounts. As civil law countries – also the EU can be included, considering that its administrative system is greatly influenced by French administrative culture for historical reasons – the processes started and was regulated by law and administrative rules. As for the accounting systems, the analyzed cases show that France and the EC have chosen to introduce an accrual-based accounting system, while Italy is in a different situation and seems to depart from international trends (table 2). Actually, while in the other countries government accounts quality improvement has been searched through the introduction of an accrual based financial reporting, in Italy a cost accounting system has been implemented, that is not linked with financial accounting and does not feed the balance sheet preparation process[14].

[13] Net assets resulting from EU consolidated financial statements 2010 has a negative amount, opposite to the positive economic outturn, due to specific peculiarities of EU activities, with reference to fund relations with members States: "This amount represents that part of the expenses already incurred by the EU up to 31 December 2010 that must be funded by future budgets. Many expenses are recognised under accrual accounting rules in the year N although they may be actually paid in year N+1 and funded by using the budget of year N+1. The inclusion in the accounts of these liabilities coupled with the fact that the corresponding amounts are financed from future budgets, results in liabilities greatly exceeding assets at the year-end" (European Commission, 2011: 62).

[14] Management accounting systems also exist in other analysed countries, but they are not mentioned because they are out of the paper's objectives.

Table 1 – Accounting and financial reporting reform processes

	France	Italy	EC
Objective	financial reporting based on accrual accounting	cost accounting to support budgeting process	financial reporting based on accrual accounting
Start	2001	2000	2000
Present situation	completed	completed	completed
Tools	- law (Constitutional By-law 2001) - accounting standards	- law (L. 94/1997, D. Lgs. 279/1997, L. 196/2009 and ministerial rules)	- law (Financial Regulation and Implementing Rules) - accounting standards
Actors	- Minister of Finance - Committee for Public Accounting Standards	- Minister of Economy and Finance - State General Accounting Department	- EC DG Budget - Accounting Standards Committee

Table 2 – Basis of the accounting systems

	France	Italy	EC
Cash accounting	X (revenues)	X	X (revenues)
Modified cash accounting	X (expenses)	X	X (expenses)
Accrual accounting	X (arising from budgetary accounting)	-	X

For this reason, Italian accounting system has been submitted to some criticisms. Accounting innovations introduced in recent years are dedicated to costs measurement, completely ignoring revenues evolution, not deriving from a double-entry bookkeeping – which should be its "natural" source of data – but from a cash and a modified-cash accounting system, based on the single-entry method: this can be the source of data lacks and low reliability (Pavan and Reginato, 2005: 72).

Also in France, accrual based information derives from budgetary accounting but it is different, because this process is realized by an integrated information tool and it feeds and is adapted to financial statements' drawing up.

The dual system choice is another element that defines French and the EC accounting reforms: it is characterised by cash accounting maintenance together with accrual accounting. This is probably due both to a more gradual introduction of these accounting changes – for costs' transition project and for historical tradition and habits of administrative staff in dealing with cash accounting (IFAC-PSC, 2003b) – and to peculiarities of central government and EC activities, mostly made of fund transactions.

Accounting principles play an important role among tools used to carry out accounting reform processes. Tables 3 and 4 sum up and compare the analysed cases: excluding Italy for the above mentioned reasons, some meeting points can be noticed.

As for general accounting principles, they do not coincide perfectly, but there are many analogies: both France and EC make a list of them, directly referring to main assumptions on which both the IASB model and the IPSAS one are based (such as going concern, accrual accounting and consistency, as well as to some of the assumptions of secondary importance).

The list drawn up by French Conceptual Framework is open, not necessarily exhaustive: "it covers the principles that seem to be common to all of the business accounting standards. The fact that a principle is not mentioned does not mean that it is not deemed to apply to the central government" (Conceptual Framework, par. III.1).

As far as accounting standards are concerned, France and the EC chose to issue accounting standards especially dedicated to government financial reporting. In both cases, it is evident that those standards have IPSAS as the main reference point, even if the EC position seems stronger: while France points out French Chart of Accounts at the first place, the EC directly recognises IPSAS authority, as settled by Financial Regulation.

Table 3 – Accounting principles

France (*Conceptual Framework*)	**EC** (*Financial Regulation and Implementing Rules*)

- Compliance
- Faithful Representation
- True and Fair View[15]
- Accrual Basis
- Going Concern Basis
- Consistency of Methods
- Information Quality:
  - Understandability
  - Relevance
  - Reliability (neutral, prudent and complete)
	- Going Concern Basis
	- Prudence
	- Consistent accounting methods
	- Comparability of information
	- Materiality
	- No-netting
	- Reality over appearance
	- Accrual-based accounting

Table 4 – Financial reporting accounting standards

France	**EC**
Central Government Accounting Standards	*Accounting Rules*
Conceptual Framework for Central Government Accounting	Introduction
1. Financial Statements	1. Group Accounting
2. Expenses	2. Financial Statements
3. Sovereign Revenues	3. Expenses and Payables
4. Operating Revenues, Intervention Revenues and Financial Revenues	4. Revenue from Exchange Transactions
5. Intangible Assets	5. Pre-financing
6. Tangible Assets	6. Intangible Fixed Assets
7. Financial Assets	7. Tangible Fixed Assets
8. Inventories	8. Leases
9. Current Receivables	9. Stock
10. Central Government Cash Position Components	10. Provisions, Contingent Assets and Liabilities
11. Financial Debts and Derivate Financial Instruments	11. Financial Assets and Liabilities
12. Provisions for Risks and Liabilities, Non-Financial Liabilities and Other Liabilities	12. Employee Benefits
13. Commitments to be Disclosed in the Notes to the Financial Statements	13. Foreign Currency Translation
14. Accounting Policies, Changes in Accounting Estimates and Errors	14. Economic Result of the Year, Fundamental Errors and Changes in Accounting Policies
15. Events After the Reporting Date	15. Related Party Disclosure
16. Segment Reporting	16. Presentation of Budget Information in Annual Accounts
	17. Revenue from Non-Exchange Transactions (taxes and Transfers)

[15] "The rules and procedures in force are applied so as to provide a *faithful representation* of the knowledge that those responsible for drawing up the financial statements have of the substance and materiality of the events recorded in the statements". On the other hand, *true and fair view* is not defined directly: "French and European legislation stipulates that when application of an accounting rule is not enough to provide a true and fair view, further information should be provided in the notes to the financial statements. Furthermore, under exceptional circumstances, if the application of a rule does not provide a true and fair view, there should be a departure from the rule. Such departures must be mentioned and explained in the notes with information about their impact on the financial statements" (Conceptual Framework, par. III.1).

With reference to financial reporting, the only common document between the analyzed cases is the balance sheet. Apart the Italian peculiar situation, some convergence elements stand between France and the EC: they also draw up the statement of financial performance, the statement of cash flow and the notes, while only EC draws up the statement of changes in equity and the consolidated financial statement (table 5).

Of course, statements are not the same, neither in structure nor in denomination, because of freedom that IPSAS let in this field. With reference to the balance sheet, statements are rather similar, while statements of financial performance have much more distinctions (Italy does not have at all), mainly concerned with the detailed information degree.

However, in some cases contact points are only formal, referred to representation in the documents. In fact, different behaviour lines are adopted in relation to measurement rules for assets – for example heritage assets, military assets and infrastructure assets – that are some of the most important critical aspects closely related to central government activities' peculiarities. Just to make few examples, in France the value of the national road system is based on its reconstruction cost and valuation of the cost of repairing wear and tear of the infrastructures making up the system; while in Italy roads valuation is based on historical cost. Then, in the French balance sheet forests are valued at a non-revisable symbolic or arbitrary cost; in the Italian one they are valued by discounting the future revenues arising from their use: this means that a lot of them are not valued at all, because a big part of the existing forests are not used for economic reasons. As for pension obligations, in the French accounts they are shown in the notes, as off balance sheet commitments; in Italy this item is not reported at all; as for the EC, the liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of any plan assets.

These differences directly influence valuation and presentation of public assets and liabilities, in their wider meaning (as to intergenerational equity also), reducing comparability.

Table 5 – Financial statements

France	Italy	EC
Statement of Net Assets/Equity	Balance Sheet	Balance Sheet
Surplus/Deficit Statement	Annexes	Economic Outturn Account
Cash Flow Statement		Cashflow Table
Notes to the Financial Statements		Statement of Changes in Net Assets
		Notes to the Financial Statements
		EU Consolidated Financial Statements

7 – Conclusion

This article examines central government accounting system and financial reporting of two countries – France and Italy – and one supranational institution, the EC.

The administrative similarity between France and Italy seems not reflected on the performed accounting reform processes and on their financial reporting. France choose to follow international trends implementing an accrual accounting system, while in Italy the accounting system is mainly devoted to monitor budget execution yet: it does not provide data for the presentation of the government financial position and performance. The main critical point is not so much the choice of not implementing accrual account, but concerns the cost accounting introduction based on traditional cash accounting: hence, the incomplete annual accounts.

More similarities between France and the EC came out, both for the dual system choice – even if technically realized in different ways – and for the composition of financial reporting. However, there is not a technical vocabulary homogeneity: but it is well known that different words' employ often comes from diverging accounting concepts, as Jones (2007: 91) points out. Furthermore, there are also some differences at a substantial level: diverging adopted measurement rules arising from different accounting standards and different reform process fulfilment phases too. Full accrual accounting application is a long and very expensive process for wide and complex public organizations as central governments are.

A particular influence of the EU on the accounting reforms carried out by the analysed European member States does not seem identifiable. Many similarities between the EC and France appear, in addition to contemporary accounting reforming processes: this is probably due to the administrative culture's similarity, deriving from historical reasons. But they also made different choices, as in France national accounting tradition is strong and the main reference point in standards setting is the French Chart of Accounts.

IPSAS do not still have the same importance than IFRS, given that the adoption of these accounting standards is not compulsory for European public entities. However, their influence authority seems to be confirmed by their adoption by the EC, that indirectly supports the IPSAS' use by the EU member States with its Financial Regulation[16].

It is not yet clear if accruals information is considered actually used where the budget is still cash based: on this point the interviews' results are rather vague, the common point between French and EC respondents is that these processes are complex and imply long time, few years are a too short period to assess their impact on the political and managerial decision making processes. This is a crucial point for future research.

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16 Agreement regarding IPSAS seems to increase because they have also been adopted by some supranational-international public organizations, such as OECD, NATO (which already have an IPSAS-based financial reporting) and the United Nations (that has begun to upgrade its accounting processes and is expected to produce an IPSAS-compliant financial reporting in 2010).

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